



**Mike Huckabee**  
Governor

# The AID

## Quarterly Newsletter



**Mike Pickens**  
Commissioner

Spring- Summer 2000

**Insurance News from the  
ARKANSAS INSURANCE DEPARTMENT  
We're Here to Help You!**

Volume I, No. 2

## Family Endangers Children in Alleged Insurance Fraud Auto Accident Ring

In an unprecedented insurance fraud investigation, Insurance Commissioner Mike Pickens and representatives of the Insurance Department's Insurance Fraud Investigation Division announced recently successful collaborative efforts with the Fort Smith Police Department and the Federal Bureau of Investigation (FBI), which led to the arrest of suspects in a sophisticated "staged auto collision ring" involving the use of some of the suspects minor children.

Police arrested 11 suspects on 77 charges including insurance fraud, theft by deception, endangering a minor, arson and battery. According to investigators involved with the case, children as young as 7 and 9 years old, whose parents planned and staged the collisions, participated as passengers in some of the targeted vehicles. The incidents took place over an extended period of time in

the Fort Smith area, officials said.

The collisions, known as the "swoop and squat" technique, were staged with the goal of receiving quick settlements from the insurance companies. The more individuals reported to be injured in the incident, the higher the settlement could become. Consequently, the car perpetuating the collision generally contained several people,

as many as 5 or 6, in one vehicle. After reports of suspicious claims from insurance companies, the Insurance Department's fraud division was asked in March 1999 by the Fort Smith Police Department to assist in the investigation.

"Our fraud investigation team worked very closely with the Fort Smith Police Department and the FBI to break this major

case of insurance fraud," Commissioner Pickens said. "We work very hard to prosecute fraud for the benefit of all we insurance consumers. Most people don't realize the significant impact fraud has on the insurance industry and how it causes insurance premiums to increase. We are committed to prosecuting and deterring fraud so consumers will not have to pay higher premiums."

The total amount of annual insurance premiums collected in Arkansas ranges from \$5-7 Billion. According to the Coalition Against Insurance Fraud, Arkansas pays approximately \$1.6 Billion annually in fraudulent insurance claims.

"Our division has no shortage of cases to work," said Marty Nevrla, Director of the Insurance Department's Insurance Fraud Investigation Division. "The division received more than 430 re-

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For more information, visit our web site at [www.state.ar.us/insurance](http://www.state.ar.us/insurance)

The Arkansas Insurance Department is located at 1200 West Third Street (the corner of Third and Cross Streets) in Downtown Little Rock, Arkansas.  
Our mission is to serve and protect the public interest by the equitable enforcement of Arkansas laws impacting the insurance industry.



## Insurance Fraud Auto Accident Ring (Cont.)

referrals of suspected fraudulent activity last year. Each referral is reviewed. With a staff of only 6 investigators, the work loads are very time intensive."

The price of insurance fraud is very costly to Arkansas's insurance consumers. According to Commissioner Mike Pickens, each Arkansas family pays approximately \$1,000 per year in premiums to pay for fraud. "If we can effectively fight and deter fraud, we can reduce our premiums," the Commissioner said.

The use of children, by having them pose as victims in some of the vehicles during the staged collisions, was particularly disturbing to Insurance Department officials. "It never ceases to amaze me the lengths people will go to commit insurance fraud," Clay Simpson, Fraud Investigation Attorney said. "The children were not only placed in danger, but were coached on how to fake injuries. That's pretty appalling," Simpson said.

The Insurance Fraud Investigation Division was created in 1997. Prior to 1997, the division was known as the Workers' Compensation Insurance Fraud Unit. The fraud division has received more than 2,600 referrals of suspected fraudulent activity. "This Department will vigorously investigate and prosecute allegations of theft and fraud," Commissioner Pickens stated. "We will not tolerate insurance fraud in the State of Arkansas."

**Suspected cases of insurance fraud may be reported to the fraud division by calling:**

(501) 371-2790  
or  
(800) 282-9134.

### Suspects Arrested Included:

#### David Gipson

- ❖ Considered to be the **leader** of the ring  
Sebastian/Crawford/Pope County Charges:
  - Insurance Fraud
  - Theft by Deception
  - Endangering Welfare of a Minor
  - Arson

#### Danny Gipson

- ❖ **Brother** to David Gipson  
Sebastian/Crawford County Charges:
  - Insurance Fraud
  - Theft by Deception
  - Endangering Welfare of a Minor
  - Arson
  - Battery

#### Melissa Gipson

- ❖ **Wife** to David Gipson  
Sebastian/Crawford/Pope County Charges:
  - Insurance Fraud
  - Theft by Deception
  - Endangering Welfare of a Minor
  - Arson

#### Syreatha Gipson

- ❖ **Wife** to Danny Gipson  
Sebastian/Crawford County Charges:
  - Insurance Fraud
  - Theft by Deception
  - Endangering Welfare of a Minor
  - Arson

#### Debra Gipson

- ❖ **Sister** to Danny and David Gipson  
Sebastian/Crawford County Charges:
  - Insurance Fraud
  - Theft by Deception
  - Endangering Welfare of a Minor
  - Arson

#### Michael Thornton, Sr.

- ❖ **Uncle** to the Gipsons  
Sebastian County Charges:
  - Insurance Fraud
  - Theft by Deception

#### Michael Thornton, Jr.

- ❖ **Cousin** to the Gipsons  
Sebastian County Charges:
  - Insurance Fraud
  - Theft by Deception

#### Jaerelle Fielding

- ❖ **Mother** to David, Danny and Debra Gibson  
Sebastian County Charges:
  - Insurance Fraud
  - Theft by Deception
  - Endangering Welfare of a Minor

#### Chopper West

- ❖ Gibson family **friend**  
Sebastian County Charges:
  - Insurance Fraud
  - Theft by Deception

# Commissioner's Comments



## Premium Finance Loans: Protect Yourself -- Be an Informed Consumer!

Here is the scenario: You are a small business in need of property and casualty or workers' compensation insurance, but you don't have the entire annual premium. What can you do?

Take out a premium finance loan.

It's a very simple process. Unlike a traditional loan from a typical financial institution, which often requires a lengthy approval process, a premium finance loan generally requires only the signature of the insured, and the producing agent. Once the binder is complete, the loan proceeds are made available to the producing agent, who receives the funds on behalf of the consumer. The agent is then responsible for forwarding the premium payment on to the insurance company on behalf of the consumer.

Noticeably absent from this significant chain of events is the involvement of the consumer, who is ultimately responsible for repayment of the loan.

My experience as Insurance Commissioner has proven that the vast majority of insurance agents are men and women of integrity, who act in a fiduciary capacity, re-

sponsibly carrying out their duties to insurance consumers. But since no group of people is perfect, and because as Insurance Commissioner I have seen some premium finance loan transactions spin out of control, I believe I have a public duty to make Arkansas's insurance consumers aware of the pitfalls associated with this unregulated area of insurance.



Please see the **10 Premium Finance Loan Tips** listed below to assist you in understanding premium finance loans and to protect you from fraudulent premium finance transactions. I hope and trust you will find this information informative and useful. Remember, you -- as an informed consumer -- are the person best able to protect yourself and your family from unscrupulous business practices.

### 10 Premium Finance Loan Tips

- \* Get a copy of your premium finance agreement before leaving the agent's office.
- \* Make sure the amounts on the agreement and the verbal amounts you were given are an exact match.
- \* Do not sign the agreement before reading the entire document.
- \* Do not sign the agreement if it contains blank spaces.
- \* Make sure the down payment amounts are correct.
- \* Get a copy of entire purchased policy and examine coverage, know the detailed cost of the coverage and examine your policy when you receive it.
- \* Know your agent. Ensure the agent's stability and verify agent represents a solid insurance company.
- \* Make sure your independent agent represents a solid insurance company.
- \* Verify satisfactory status of agent with the agent's insurance company.
- \* Consumers must understand this important fact, once a loan agreement has been reached and a loan has been extended, the consumer is still responsible for repaying the loan, even if the policy cancels or the insurance company goes out of business.



# Workers' Compensation Rates Decline for Sixth Consecutive Year

## Lowest Premium Levels in Decades

Industry experts said it would not last but Arkansas continues to enjoy a competitive workers' compensation market with the lowest premium levels in decades. Insurance Commissioner Mike Pickens recently announced a workers' compensation benefits rate decrease of 4.5% for the voluntary market, and a 2.0% rate decrease for assigned risk. The rate changes will become effective July 1, 2000 (for both renewals and new policies), marking the sixth consecutive year workers' compensation rates have declined for the State of Arkansas.

## Act 796 of 1993

In the early 1990s Arkansas was identified by business and insurance industries as a state in need of significant workers' compensation law reform. Changes were necessary due to inadequate rates and uncontrolled workers' compensation system costs. For example, the voluntary market and assigned risk plan rates increased 15% and 18% respectively in 1991 and 1992. Act 796 of 1993 is credited with the steady rate decline Arkansas has experienced over the past six years, generating an overall decrease of 35% in workers' compensation rates since passage of the Act.

Year	Voluntary Market	Assigned Risk Plan
1993	-0-	-0-
1994	-0-	-0-
1995	-12.4%	-12.4%
1996	-8.0%	-3.7%
1997	-4.7%	-7.6%
1998	-9.1%	-8.2%
1999	-4.1%	-3.0%
2000	-4.5%	-2.0%

Act 796 of 1993 stalled expected rate increases in 1993 and 1994. The decreases in 1995 through 2000 were the result of actual experience due to the effectiveness of the provisions of the Act.

"The Act 796 reforms have proven to be very good for both employers and employees," Commissioner Pickens stated. "The reforms have decreased the incidence of fraud and abuse in the system. This has led to increased benefits and wages."

## Workers' Compensation Fraud Investigation Unit

Before the passage of Act 796, no criminal prosecution for workers' compensation fraud (committed by employees, employers, or healthcare providers) had occurred in the State. At that time fraud in the workers' compensation system was perceived to be epidemic. Act 796 created the Workers' Compensation Fraud Investigation Unit within the Insurance Department and upgraded the penalty for any type of fraud committed within the workers' compensation system from a misdemeanor to a Class D felony (maximum 6 years and/or \$10,000 fine). Since the fraud unit was established, restitution to victims of fraud has totaled more than \$228,000, with penalties being assessed against perpetrators of fraud totaling more than \$143,000 and a total of more than 1,300 suspected cases of fraud have been referred to the fraud unit.

## Industry Average

While this year's overall decrease of 4.5% for the voluntary market and 2.0% in the assigned risk plan is an average decrease, the following industry average chart reflects the specific breakdowns and categories.

	Voluntary Market	Assigned Risk
Manufacturing	-5.9%	-3.5%
Contracting	-4.4%	-1.9%
Office & Clerical	+0.1%	+2.7%
Goods & Services	-5.0%	-2.5%
Miscellaneous	-3.7%	-1.3%
Overall	-4.5%	-2.0%

## Everyone Benefits

Arkansas employees have also benefited from Act 796, prompting an increase in the computation of the average weekly wage from 70% to 85% of average wage. This change was effective in January 1996. The 1999 increase in the minimum/maximum benefits provisions, and the adjustments in the pension plan offset are additional benefits passed on to workers' compensation beneficiaries.

"If we are going to attract more good, high paying jobs to Arkansas, we must maintain these reforms," Commissioner Pickens stated. "Reform should not be at the expense of the injured workers. In Arkansas, we have been able to reform our workers' compensation system in a way that benefits, not harms, injured workers."

# State Insurance Department Among Nation's Leaders



The Arkansas Insurance Department is one of the nation's most progressive and effective insurance departments, according to the A.M. Best Company, the country's oldest and one of the most respected insurance company rating organizations. According to the company's monthly publication, *Best's Review*, State Insurance Commissioner Mike Pickens is among "a small group of insurance regulators... shaking things up in their home state and leading a regulatory revolution at the national level." Noted for "(revamping) his office by setting financial solvency standards and (streamlining) rules for insurers," Commissioner Pickens also is touted for his ability to listen to his constituents. "You have to talk to the people that you regulate. You don't just listen to the lobbyists," he stated.

A proponent of open communication, Commissioner Pickens organized several task forces this year to address issues ranging from insurer/provider disputes to a complete evaluation of the current Arkansas Insurance Code.

Appointed by Governor Huckabee in 1997, Pickens is quick to recognize the assistance of the Governor, General Assembly and all the Insurance Department employees for the sweeping changes made under his administration. "Sometimes the quarterback gets the credit while the rest of the team does most of the work," Pickens said. "We have a knowledgeable, experienced team of managers and employees at the Insurance Department who are committed to protecting insurance consumers first and foremost."

"Mike Pickens's leadership as Arkansas Insurance Commissioner continues to earn him national recognition," Governor Huckabee said. "He has streamlined the rules process and eliminated the backlog that he found when I appointed him. I'm proud of the job Mike is doing."

Other commissioners highlighted in the article include Kansas Insurance Commissioner, Kathleen Sebelius; Texas Insurance Commissioner, Jose Montemayor; Illinois Insurance Director, Nathaniel Shapo; and former Regulatory Liaison for Governor Mike Huckabee and former Deputy Commissioner to Pickens, Lee Covington, who is now the Ohio Insurance Director.

Credited with leading the charge to make insurance regulation more efficient, effective and responsive... while less burdensome for consumers, Pickens praised Governor Huckabee and the Arkansas General Assembly for being responsive to the needs of the people of the State

of Arkansas. "We are fortunate to have forward thinking leaders who understand and respond to the ever-changing financial services industry. This Department is committed to ensuring that Arkansans benefit from the monumental changes occurring in the worldwide financial services marketplace."

## State Insurance Regulators Take Expertise to Foreign Soil

In an effort to assist Egypt with the privatization of its insurance market, the Department's Deputy Commissioner and Life and Health Actuary John Hartnedy, along with Carol Stiffler, Rate and Form Analyst, traveled to Egypt earlier this year. The trip was a result of a program sponsored by the National Association of Insurance Commissioners (NAIC) and the U.S. Department of Commerce, which work directly with the Egyptian Insurance Supervisory Authority (EISA).

Working directly with EISA, Mr. Hartnedy and Mrs. Stiffler trained on a number of regulatory issues including solvency, rate and form filings, admissions, market conduct, insurance law, risk-based capital, financial analysis, and actuarial memorandums. "We were pleased to provide what we consider to be valuable insight into the successful operations of the U.S. insurance industry," Deputy Commissioner Hartnedy said. "During this trip we were able to take EISA step by step through a risk based capital report. It was a very rewarding and much appreciated process."

Unlike the U.S. insurance industry, the Egyptian insurance market has been closed since the 1970s. As a result, only approximately 12 insurance companies exist and conduct business in the entire country of Egypt at this time. However, the insurance market is expected to open during the Spring of 2000. Although the culture is very different and their approach to business is very conservative, "if desire and talent count, Egypt will succeed in its efforts to privatize its insurance market," Carol Stiffler reported.





## Unfair Race-based Premium Pricing Draws Major Insurance Settlement for Arkansans

State Insurance Commissioner Mike Pickens announced on June 23, 2000, approximately 13,000 African American policyholders in Arkansas may be entitled to reimbursements from American General Life and Accident Insurance Company due to the company's premium pricing, which allegedly charged African Americans higher premiums than other races.

In a \$206 million regulatory settlement with American General announced recently, approximately 9.1 million policyholders throughout the country are expected to receive restitution for alleged inequities in premium pricing. The problem was found among industrial life insurance policies sold by companies American General acquired over the years.

"We were shocked to hear that this unfair discrimination was taking place in today's insurance industry," Commissioner Pickens said. "The Arkansas Insurance Department is implementing measures to ensure that such practices are not occurring in Arkansas."

The Insurance Department is investigating other life insurance companies doing business in Arkansas to determine if race-based premium discrimination is practiced in Arkansas at this time. Insurance officials expect the investigation to be complete in about 90 days. "We will take the necessary measures to halt any inequities in life insurance rates based solely on race," Commissioner Pickens stated.

According to the agreement, American General will begin immediately to notify its policyholders who may be entitled to a settlement. If Arkansans believe they may be entitled to reimbursement or restitution from the company and have not heard from American General by July 21, 2000, they should contact the company directly at their toll free number 1-800-681-4944. The settlement will affect premiums paid on policies since January 1, 1982, and could include lapsed, surrendered, or terminated policies.

In addition to restitution to policyholders, Arkansas will receive \$87,600 in fines from American General Life and Accident Insurance Company. The company has also agreed to voluntarily contribute \$2 million to the National Association for the Advancement of Colored People (NAACP).

American General has also agreed to settle cases for so-called burial policies, where policy owners paid more in premiums than the face value of the policy.

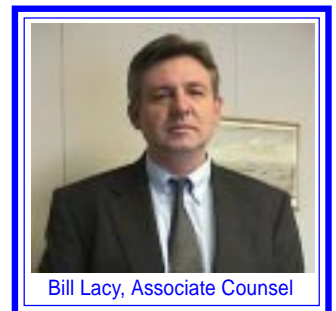
Insurance consumers who may have purchased policies or who are beneficiaries of surrendered policies from

the following companies should receive a Notice package no later than July 21, 2000: The policies may have been purchased from the companies named below, however the companies were later acquired by American General Life and Accident Insurance Company.

**American General Life and Accident Ins. Co.  
Gulf Life Ins. Co.  
Independent Life and Accident Ins. Co.  
Life and Casualty Ins. Co. of Tennessee  
National Life and Accident Ins. Co.  
Home Beneficial Life Ins. Co.  
Equitable Life Ins. Co.  
Southeast Life Ins. Co.  
Victory National Life Ins. Co.  
Wilson National Life Ins. Co.  
Interstate Life and Accident Ins. Co.  
Herald Life Ins. Co.**

Arkansas insurance consumers with questions regarding this or any other insurance matter may contact the **Consumer Services Division** at 1-800-852-5494.

### Legal Division Welcomes New Attorney



Bill Lacy, Associate Counsel

The Legal Division of the Arkansas Insurance Department is pleased to announce the addition of William R.

Lacy as its newest staff attorney. Mr. Lacy comes to the Department after having been in private practice since 1986, where he engaged in the practice of business and domestic relations bankruptcy. A Sunday School teacher, Mr. Lacy is a graduate of Hendrix College where he holds a Bachelors Degree in Economics and Finance, and is a graduate of the University of Arkansas Law School. He and his wife Debbie have two adult children, one daughter and one son. He reports his hobby to be the collection of original movie soundtracks, and boasts that he has more than 300 in his library. "We believe Bill will be a tremendous asset to the Legal Division," Jay Morgan, Legal Counsel and Director of the Legal Division said. "He brings a tremendous amount of business experience to the Department and we are grateful to have him on board."

# The Rate Report



The following property and casualty rates are provided to you as a service of the Property and Casualty Division of the Arkansas Insurance Department. The rates listed in this report reflect rate increases and decreases that have been granted by the Department for the 2nd Quarter 2000. We will utilize this section of the newsletter to keep you informed of rate changes as they occur and are released through the Department.

## Decreases

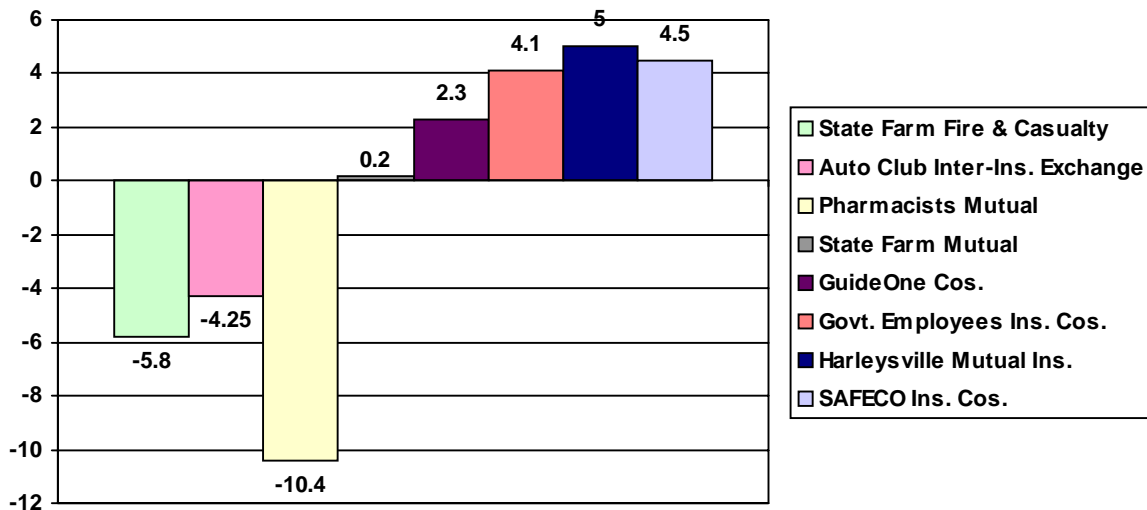
<b>Company</b>	<b>Percent of Decrease</b>	<b>Effective Date</b>
State Farm Fire & Casualty Co.	5.8%	07/01/2000
Auto Club Inter-Insurance Exchange	4.25%	06/01/2000
Pharmacists Mutual	10.4%	09/01/2000

## Increases

<b>Company</b>	<b>Percent of Increase</b>	<b>Effective Date</b>
SAFECO Ins. Co. of America, SAFECO National Ins. Co. of America, First National Ins. Co. of America and General Ins. Co. of America	4.5%	07/20/00* 08/24/00**
State Farm Mutual	0.2%	07/01/2000
GuideOne Mutual Ins. Co., Guide One Specialty Mutual Ins. Co., GuideOne Elite Ins. Co., and GuideOne America Ins. Co.	2.3%	06/15/2000 * 07/20/2000 **
Govt. Employees Ins. Co. and GEICO General Ins. Co.	4.1%	05/15/2000 * 06/01/2000 **
Harleysville Mutual Ins. Co.	5%	06/01/2000 * 08/10/2000**

\* New Business

\*\* Renewals





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**Mission Statement:**  
**To serve and protect the public  
interest by the equitable  
enforcement of the State's laws  
and regulations affecting the  
insurance industry.**